

# **QUARTERLY REPORT**

**LICENSEE: ATLANTIC CITY SHOWBOAT, INC**

**FOR THE QUARTER ENDED SEPTEMBER 30, 2003**

**TO THE  
CASINO CONTROL COMMISSION  
OF THE  
STATE OF NEW JERSEY**

TRADING NAME OF LICENSEE: ATLANTIC CITY SHOWBOAT, INC.

## BALANCE SHEETS

AS OF SEPTEMBER 30, 2003 AND 2002

(UNAUDITED)  
(\$ IN THOUSANDS)

LINE (a)	DESCRIPTION (b)	2003 (c)	2002 (d)
	<b>ASSETS</b>		
	Current Assets:		
1	Cash and Cash Equivalents.....	23,137	\$ 25,443
2	Short-Term Investments.....	-	-
3	Receivables and Patrons' Checks (Net of Allowance for Doubtful Accounts - 2003, \$3,821 ; 2002, \$3,964 .....NOTE 3	4,073	5,068
4	Inventories.....	1,650	1,567
5	Prepaid Expenses and Other Current Assets.....NOTE 4	4,131	2,810
6	Total Current Assets.....	32,991	34,888
7	Investments, Advances, and Receivables.....NOTES 5 & 13	1,331,012	1,018,065
8	Property and Equipment - Gross.....	662,385	566,326
9	Less: Accumulated Depreciation and Amortization.....	(298,618)	(273,257)
10	Property and Equipment - Net.....	363,767	293,069
11	Other Assets.....	1,594	2,101
12	Total Assets.....	\$ 1,729,364	\$ 1,348,123
	<b>LIABILITIES AND EQUITY</b>		
	Current Liabilities:		
13	Accounts Payable.....	6,257	3,883
14	Notes Payable.....	-	-
	Current Portion of Long-Term Debt:		
15	Due to Affiliates.....	-	-
16	Other.....	204	184
17	Income Taxes Payable and Accrued.....	-	300
18	Other Accrued Expenses.....NOTE 6	24,821	33,138
19	Other Current Liabilities.....	298	727
20	Total Current Liabilities.....	31,580	38,232
	Long-Term Debt:		
21	Due to Affiliates.....NOTE 8	715,000	715,000
22	Other.....	431	634
23	Deferred Credits.....	15,204	15,843
24	Other Liabilities.....NOTE 7	909,364	524,889
25	Commitments and Contingencies.....NOTE 14		
26	Total Liabilities.....	1,671,579	1,294,598
27	Stockholders', Partners', or Proprietor's Equity.....	57,785	53,525
28	Total Liabilities and Equity.....	\$ 1,729,364	\$ 1,348,123

The accompanying notes are an integral part of the financial statements.  
Valid comparisons cannot be made without using information contained in the Notes.

# STATEMENTS OF INCOME

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2003 AND 2002

(UNAUDITED)  
(\$ IN THOUSANDS)

LINE (a)	DESCRIPTION (b)	2003 (c)	2002 (d)
	Revenue:		
1	Casino.....	\$ 280,602	\$ 276,821
2	Rooms.....	18,858	13,655
3	Food and Beverage.....	39,169	37,456
4	Other.....	4,448	5,515
5	Total Revenue.....	343,077	333,447
6	Less: Promotional Allowances.....	80,205	75,520
7	Net Revenue.....	262,872	257,927
	Costs and Expenses:		
8	Cost of Goods and Services.....	148,516	141,606
9	Selling, General, and Administrative.....	24,305	26,230
10	Provision for Doubtful Accounts.....	113	618
11	Total Costs and Expenses.....	172,934	168,454
12	Gross Operating Profit.....	89,938	89,473
13	Depreciation and Amortization.....	19,807	20,102
	Charges from Affiliates Other than Interest:		
14	Management Fees.....	-	-
15	Other..... NOTES 2, 9 & 10	12,611	12,497
16	Income (Loss) from Operations.....	57,520	56,874
	Other Income (Expenses):		
17	Interest (Expense) - Affiliates..... NOTE 8	(43,349)	(43,363)
18	Interest (Expense) - External.....	-	-
19	Investment Alternative Tax and Related Income (Expense) - Net.....	(1,102)	(3,479)
20	Nonoperating Income (Expense) - Net..... NOTE 11	723	522
21	Total Other Income (Expenses).....	(43,728)	(46,320)
22	Income (Loss) Before Income Taxes and Extraordinary Items.....	13,792	10,554
23	Provision (Credit) for Income Taxes.....	5,454	4,473
24	Income (Loss) Before Extraordinary Items.....	8,338	6,081
	Extraordinary Items (Net of Income Taxes -		
25	2002, \$ ; 2001, \$ ).....	-	-
26	Net Income (Loss).....	\$ 8,338	\$ 6,081

The accompanying notes are an integral part of the financial statements.  
Valid comparisons cannot be made without using information contained in the Notes.

# STATEMENTS OF INCOME

FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2003 AND 2002

(UNAUDITED)  
(\$ IN THOUSANDS)

LINE (a)	DESCRIPTION (b)	2003 (c)	2002 (d)
	Revenue:		
1	Casino.....	\$ 100,500	\$ 101,896
2	Rooms.....	9,509	5,481
3	Food and Beverage.....	14,122	14,342
4	Other.....	1,398	2,237
5	Total Revenue.....	125,529	123,956
6	Less: Promotional Allowances.....	30,528	29,307
7	Net Revenue.....	95,001	94,649
	Costs and Expenses:		
8	Cost of Goods and Services.....	50,599	51,042
9	Selling, General, and Administrative.....	8,435	8,357
10	Provision for Doubtful Accounts.....	33	55
11	Total Costs and Expenses.....	59,067	59,454
12	Gross Operating Profit.....	35,934	35,195
13	Depreciation and Amortization.....	6,909	6,406
	Charges from Affiliates Other than Interest:		
14	Management Fees.....	-	-
15	Other.....NOTES 2, 9, & 10	4,258	4,207
16	Income (Loss) from Operations.....	24,767	24,582
	Other Income (Expenses):		
17	Interest (Expense) - Affiliates.....	(14,448)	(14,454)
18	Interest (Expense) - External.....	-	-
19	Investment Alternative Tax and Related Income (Expense) - Net.....	(394)	(1,651)
20	Nonoperating Income (Expense) - Net.....	194	215
21	Total Other Income (Expenses).....	(14,648)	(15,890)
22	Income (Loss) Before Income Taxes and Extraordinary Items.....	10,119	8,692
23	Provision (Credit) for Income Taxes.....	1,200	3,860
24	Income (Loss) Before Extraordinary Items.....	8,919	4,832
	Extraordinary Items (Net of Income Taxes -		
25	2002, \$ ; 2001, \$ ).....	-	-
26	Net Income (Loss).....	\$ 8,919	\$ 4,832

The accompanying notes are an integral part of the financial statements.  
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# STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2002 AND THE NINE MONTHS ENDED SEPTEMBER 30, 2003

(UNAUDITED)  
(\$ IN THOUSANDS)

Line (a)	Description (b)	Common Stock		Preferred Stock		Additional Paid-In Capital (g)	Retained Earnings (Accumulated) (Deficit) (f)	Total Stockholders' Equity (Deficit) (j)
		Shares (c)	Amount (d)	Shares (e)	Amount (f)			
1	Balance, December 31, 2001.....	1,500	\$ 70,492	-	\$ -	\$ -	\$ (23,048)	\$ 47,444
2	Net Income (Loss) - 2002.....						2,003	2,003
3	Contribution to Paid-in-Capital.....							
4	Dividends.....							
5	Prior Period Adjustments.....							
6								
7								
8								
9								
10	Balance, December 31, 2002.....	1,500	70,492	-	-	-	(21,045)	49,447
11	Net Income (Loss) - 2003.....						8,338	8,338
12	Contribution to Paid-in -Capital.....							
13	Dividends.....							
14	Prior Period Adjustments.....							
15	1999 Income Tax Adjustment.....							
16								
17								
18								
19	Balance, September 30, 2003.....	1,500	\$ 70,492	-	\$ -	\$ -	\$ (12,707)	\$ 57,785

The accompanying notes are an integral part of the financial statements.  
Valid comparisons cannot be made without using information contained in the Notes.

TRADING NAME OF LICENSEE: ATLANTIC CITY SHOWBOAT, INC.

**STATEMENTS OF CASH FLOWS**

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2003 AND 2002

(UNAUDITED)  
(\$ IN THOUSANDS)

Amended

1/30/04

LINE (a)	DESCRIPTION (b)	2003 (c)	2002 (d)
1	NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES.....	\$ 75,270	\$ 41,835
	CASH FLOWS FROM INVESTING ACTIVITIES:		
2	Purchase of Short-Term Investment Securities.....		
3	Proceeds from the Sale of Short-Term Investment Securities.....		
4	Cash Outflows for Property and Equipment.....	(73,923)	(45,734)
5	Proceeds from Disposition of Property and Equipment.....	-	62
6	Purchase of Casino Reinvestment Obligations.....	(3,344)	(3,222)
7	Purchase of Other Investments and Loans/Advances made.....		
8	Proceeds from Disposal of Investments and Collection of Advances and Long-Term Receivables.....		
9	Cash Outflows to Acquire Business Entities.....		
10			
11			
12	Net Cash Provided (Used) By Investing Activities.....	(77,267)	(48,894)
	CASH FLOWS FROM FINANCING ACTIVITIES:		
13	Cash Proceeds from Issuance of Short-Term Debt.....		
14	Payments to Settle Short-Term Debt.....	15	(2)
15	Cash Proceeds from Issuance of Long-Term Debt.....		
16	Costs of Issuing Debt.....		
17	Payments to Settle Long-Term Debt.....	(154)	(126)
18	Cash Proceeds from Issuing Stock or Capital Contributions.....		
19	Purchases of Treasury Stock.....		
20	Payments of Dividends or Capital Withdrawals.....	-	-
21			
22			
23	Net Cash Provided (Used) By Financing Activities.....	(139)	(128)
24	Net Increase (Decrease) in Cash and Cash Equivalents.....	(2,136)	(7,187)
25	Cash and Cash Equivalents at Beginning of Period.....	25,273	32,630
26	Cash and Cash Equivalents at End of Period.....	\$ 23,137	\$ 25,443
	CASH PAID DURING PERIOD FOR:		
27	Interest (Net of Amount Capitalized).....	\$ 55,541	\$ 47,444
28	Income Taxes.....		\$ -

The accompanying notes are an integral part of the financial statements.  
Valid comparisons cannot be made without using information contained in the Notes.

# STATEMENTS OF CASH FLOWS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2003 AND 2002

(UNAUDITED)  
(\$ IN THOUSANDS)

LINE (a)	DESCRIPTION (b)	2003 (c)	2002 (d)
	NET CASH FLOWS FROM OPERATING ACTIVITIES:		
29	Net Income (Loss).....	\$ 8,338	\$ 6,081
	Noncash Items Included in Income and Cash Items Excluded from Income:		
30	Depreciation and Amortization of Property and Equipment.....	19,807	20,102
31	Amortization of Other Assets.....	255	340
32	Amortization of Debt Discount or Premium.....	-	-
33	Deferred Income Taxes - Current.....	-	-
34	Deferred Income Taxes - Noncurrent.....	(1,191)	(5,353)
35	(Gain) Loss on Disposition of Property and Equipment.....	-	(62)
36	(Gain) Loss on Casino Reinvestment Obligations.....	1,102	3,479
37	(Gain) Loss from Other Investment Activities.....		
	Net (Increase) Decrease in Receivables and Patrons' Checks.....	892	725
38			
39	Net (Increase) Decrease in Inventories.....	209	793
40	Net (Increase) Decrease in Other Current Assets.....	(1,634)	(1,070)
41	Net (Increase) Decrease in Other Assets.....	(2)	(257)
42	Net Increase (Decrease) in Accounts Payable.....	(874)	(1,440)
	Net Increase (Decrease) in Other Current Liabilities Excluding Debt.....	(15,243)	(2,012)
43			
	Net Increase (Decrease) in Other Noncurrent Liabilities Excluding Debt.....	112,078	95,704
44			
45	Net (Increase) Decrease in Invest., Advances, and Receivables.....	(48,467)	(75,195)
46			
47	Net Cash Provided (Used) By Operating Activities.....	\$ 75,270	\$ 41,835

## SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

	ACQUISITION OF PROPERTY AND EQUIPMENT:		
48	Additions to Property and Equipment.....	\$ 73,923	\$ 45,734
49	Less: Capital Lease Obligations Incurred.....		-
50	Cash Outflows for Property and Equipment.....	\$ 73,923	\$ 45,734
	ACQUISITION OF BUSINESS ENTITIES:		
51	Property and Equipment Acquired.....	\$	\$
52	Goodwill Acquired.....		
	Net Assets Acquired Other than Cash, Goodwill, and Property and Equipment.....		
53			
54	Long-Term Debt Assumed.....		
55	Issuance of Stock or Capital Invested.....		
56	Cash Outflows to Acquire Business Entities.....	\$	\$
	STOCK ISSUED OR CAPITAL CONTRIBUTIONS:		
57	Total Issuances of Stock or Capital Contributions.....	\$	\$
58	Less: Issuances to Settle Long-Term Debt.....		
59	Consideration in Acquisition of Business Entities.....		
60	Cash Proceeds from Issuing Stock or Capital Contributions.....	\$	\$

The accompanying notes are an integral part of the financial statements.  
Valid comparisons cannot be made without using information contained in the Notes.

TRADING NAME OF LICENSEE: ATLANTIC CITY SHOWBOAT

## SCHEDULE OF PROMOTIONAL EXPENSES AND ALLOWANCES

(\$ IN THOUSANDS)

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2003

Line (a)	(b)	Promotional Allowances		Promotional Expenses	
		Number of Recipients (c)	Dollar Amount (d)	Number of Recipients (e)	Dollar Amount (f)
1	Rooms	280,888	\$ 16,568		
2	Food	1,406,959	18,831		
3	Beverage	5,182,513	7,027		
4	Travel	-		3,371	590
5	Bus Program Cash	570,868	8,256		
6	Other Cash Complimentaries	1,091,199	28,268	-	-
7	Entertainment	9,638	355		
8	Retail & Non-Cash Gifts	-			
9	Parking	434,096	868		
10	Other	3,647	32	12,838	963 *
11	Total	8,979,808	\$ 80,205	16,209	\$ 1,553

FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2003

Line (a)	(b)	Promotional Allowances		Promotional Expenses	
		Number of Recipients (c)	Dollar Amount (d)	Number of Recipients (e)	Dollar Amount (f)
1	Rooms	109,194	\$ 8,362		\$ -
2	Food	438,051	5,857		
3	Beverage	1,802,632	2,361		
4	Travel			791	139
5	Bus Program Cash	218,270	3,162		-
6	Other Cash Complimentaries	446,332	10,663	-	-
7	Entertainment	3,224	113		
8	Retail & Non-Cash Gifts				
9	Parking	2,701	5		
10	Other	521	5	2,447	184 *
11	Total	3,020,925	30,528	3,238	\$ 323

\*Included in the other Promotional Expenses is the cost of Cigarette and Cigar complimentaries in the amount of \$215,000.

\*Included in the other Promotional Expenses is the cost of Invited Guest Gifts in the amount of \$201,000.

\*No other individual complimentary service or item within the "Other" category exceeds 5% of that column's total.



**ATLANTIC CITY SHOWBOAT, INC.**  
**Notes to Financial Statements**  
**(Dollars In Thousands)**

**(1) Summary of Significant Accounting Policies**

**Nature of Operations**

Atlantic City Showboat, Inc. (the Company), is a wholly owned subsidiary of Ocean Showboat, Inc. (OSI), which is a wholly owned subsidiary of Showboat, Inc. (SBO). SBO is a wholly owned subsidiary Harrah's Operating Company, Inc. (HOC), which is a wholly owned subsidiary of Harrah's Entertainment, Inc. and Subsidiaries (HARRAH'S). OSI was incorporated in 1983 and is a holding company with its principal assets being investments in the Company. The Company conducts casino gaming operations and operates full supportive services of hotel, restaurant, bar and convention facilities at the Showboat Hotel and Casino in Atlantic City, New Jersey (Atlantic City Showboat).

On June 1st, 1998, HARRAH'S, a Delaware corporation, purchased SBO and its subsidiaries.

**Omission of Disclosures**

In accordance with the Financial Reporting guidelines provided by the Casino Control Commission (the "CCC"), the Company has elected not to include certain disclosures, which have not significantly changed since filing the most recent Quarterly Report. Accordingly, the following disclosures have been omitted: Future Lease Obligations and certain Income Tax disclosures.

**Revenue Recognition**

Casino revenues consist of the net win from gaming activities, which is the difference between gaming wins and losses. Revenues from hotel and other services are recognized at the time the related services are performed.

**Promotional Allowances**

Gross revenues include the retail value of complimentary food, beverage, theater and hotel services furnished to patrons. The retail value of these promotional allowances is deducted to arrive at net revenues. As more fully disclosed in the paragraph "Recent Accounting Pronouncements" promotional allowances have been expanded to include cash rebates. The estimated cost of providing complimentary services and cash rebates to customers for the nine months ended September 30 2003 and 2002, respectively, were as follows:

	<u>2003</u>	<u>2002</u>
Food and Beverage	\$20,762	\$21,564
Rooms	8,262	6,786
Other	2,003	1,798
Bus Program Cash	8,256	9,220
Other Cash Complimentaries	<u>28,268</u>	<u>26,736</u>
	<u>\$67,551</u>	<u>\$66,104</u>

**Cash and Cash Equivalents**

The Company considers all highly liquid investments purchased with a maturity of three months or less, at the time of purchase, to be cash equivalents..

**ATLANTIC CITY SHOWBOAT, INC.**  
**Notes to Financial Statements**  
**(Dollars In Thousands)**

**Inventories**

Inventories of provisions and supplies are valued at the lower of cost (weighted average basis) or market.

**Financial Instruments**

The carrying amount of cash equivalents, receivables and all current liabilities approximates fair value due to their short-term nature. The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties. After giving effect to their allowances, the Casino Reinvestment Development Authority (CRDA) bonds and deposits approximately indicate their fair value based upon their below market interest rates. The carrying amount of long-term debt is estimated to approximate its fair value as the stated rates approximate current rates.

**Property and Equipment**

Property and Equipment is carried at cost. Depreciation including amortization of capitalized leases is computed using the straight-line method. The cost of maintenance and repairs is charged to expense as incurred; significant renewals and betterments are capitalized. Estimated useful lives for Property and Equipment are 5 to 15 years for Land Improvements, 10 to 40 years for buildings and 3 to 10 years for furniture and equipment.

**Income Taxes**

Deferred tax assets and liabilities represent the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases.

Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect of a change in existing tax rates is recognized as an increase or decrease to the tax provision in the period that includes the enactment date.

The Company is included in the consolidated federal income tax group of HARRAH'S. Accordingly, income taxes are allocated based on the separate return method except that tax benefits available to the Company are recognized when generated by the Company to the extent utilized by the group, including carrybacks.

**Deferred Financing Cost**

Costs associated with the issuance of debt have been deferred and are being amortized to interest expense over the life of the related indebtedness using the straight-line method that approximates the effective interest method.

**Long-lived Assets**

The provisions of Statement of Financial Accounting Standards ("SFAS") No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of" requires, among other things, that an entity review its long lived assets and certain related intangibles for

**ATLANTIC CITY SHOWBOAT, INC.**  
**Notes to Financial Statements**  
**(Dollars In Thousands)**

**Long-lived Assets (Cont.)**

impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be fully recoverable. The assessment for potential impairment is based primarily on the Company's ability to recover the unamortized balance of its long-lived assets from expected future cash flows from its operations on an undiscounted basis. The Company is not aware of any events or changes in circumstances that indicate that the carrying amount of any asset may be impaired.

**Accounting Estimates**

The preparation of these financial statements in conformity with generally accepted accounting principals requires the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from these estimates.

The Company provides an allowance for doubtful accounts arising from casino, hotel and other services, which is based upon a specific review of certain outstanding receivables and historical collection performance. In determining the amount of the allowance, the Company is required to make certain estimates and assumptions and actual results may differ from those assumptions.

**(2) Related Party Transactions**

The Company is charged a fee from HOC for administrative services (including executive, financial, information technology, legal, marketing, and tax planning and compliance). The Company was charged \$4,668 and \$4,621 for the nine months ended September 30 2003 and 2002, respectively, for these services.

As more fully disclosed in Note 5, the Company transfers cash in excess of its operating needs to HARRAH'S on a daily basis. As more fully disclosed in Note 7, services are provided by HARRAH'S and cash is transferred from HARRAH'S to the Company based upon the needs of the Company to fund daily operations. No interest is paid or (earned) on the amount shown as Due To (From) Affiliates in the accompanying statements.

As more fully disclosed in Note 8, the Company has Intercompany Promissory Notes Payable totaling \$715,000.

As more fully disclosed in Note 9, the Company leases land from a subsidiary of SBO.

**(3) Receivables**

As of September 30 , 2003 and 2002, Receivables consisted of the following:

	<u>2003</u>	<u>2002</u>
Casino	\$5,203	\$6,179
Hotel	146	152
Other	<u>2,545</u>	<u>2,701</u>
	7,894	9,032
Less allowance for doubtful accounts	<u>3,821</u>	<u>3,964</u>
	<u>\$4,073</u>	<u>\$5,068</u>

**ATLANTIC CITY SHOWBOAT, INC.**  
**Notes to Financial Statements**  
**(Dollars In Thousands)**

**(4) Prepaid Expenses & Other Current Assets**

As of September 30, 2003 and 2002, Prepaid Expenses and Other Current Assets consisted of the following:

	<u>2003</u>	<u>2002</u>
Prepaid Slot License	\$1,503	\$1,324
Prepaid Insurance	67	51
Deposits	189	202
Prepaid Advertising	19	0
Prepaid Contracts/Utilities	0	255
Prepaid Income Taxes	786	0
Other	<u>1,567</u>	<u>978</u>
	<u>\$4,131</u>	<u>\$2,810</u>

**(5) Investments, Advances & Receivables**

As of September 30, 2003 and 2002, Investments, Advances and Receivables consisted of the following:

	<u>2003</u>	<u>2002</u>
CRDA Deposits (Note 13)	\$17,563	\$17,151
CRDA Bonds (Note 13)	<u>15,576</u>	<u>10,704</u>
	<u>33,139</u>	<u>27,855</u>
Less: Valuation Allowance on CRDA Investments	<u>(9,904)</u>	<u>(8,882)</u>
CRDA Investments, Net	23,235	18,973
Due From Affiliates	<u>1,307,777</u>	<u>999,092</u>
	<u>\$1,331,012</u>	<u>\$1,018,065</u>

Due From Affiliates consisted of the following:

	<u>2003</u>	<u>2002</u>
HARRAH'S	\$1,307,352	\$997,741
Harrah's Atlantic City	61	985
Showboat Indiana	14	14
Harrah's Lake Tahoe	19	22
Harrah's Joliet	8	8
Harrah's Ak-Chin	291	290
Harrah's North Kansas City	<u>32</u>	<u>32</u>
	<u>\$1,307,777</u>	<u>\$999,092</u>

**ATLANTIC CITY SHOWBOAT, INC.**  
**Notes to Financial Statements**  
**(Dollars In Thousands)**

**(6) Other Accrued Expenses**

As of September 30, 2003 and 2002, Other Accrued Expenses consisted of the following:

	<u>2003</u>	<u>2002</u>
Salaries and Wages	\$7,782	\$6,286
Taxes, Other Than Taxes on Income	1,507	1,455
Accrued Advertising and Promotion	3,750	1,585
Accrued Interest	4,782	17,661
Other	7,000	6,151
	<u>\$24,821</u>	<u>\$33,138</u>

**(7) Other Liabilities**

As of September 30, 2003 and 2002, Other Liabilities consisted of the following:

	<u>2003</u>	<u>2002</u>
Due to Affiliates, Long-Term	\$909,098	\$524,470
Other	266	419
	<u>\$909,364</u>	<u>\$524,889</u>

Due To Affiliates, Long Term consisted of the following:

	<u>2003</u>	<u>2002</u>
HARRAH'S	\$491,226	\$367,020
SBO	403,473	146,351
Harrah's Las Vegas	6,435	6,437
Harrah's Reno	21	14
Harrah's Tunica	11	12
Harvey's Tahoe	663	0
Harrah's Laughlin	14	0
Rio Las Vegas	83	83
OSI	38	38
Harrah's Atlantic City	6,606	3,647
Showboat Operating Company	528	868
	<u>\$909,098</u>	<u>\$524,470</u>

**(8) Long Term Debt, Due to Affiliates**

As of September 30, 2003 and 2002 Long-Term Debt, Due to Affiliates consisted of the following:

	<u>2003</u>	<u>2002</u>
9 ¼ % Promissory Note - Due 2008	\$215,000	\$215,000
7 ½ % Promissory Note - Due 2009	500,000	500,000
Total Long Term Debt	<u>\$715,000</u>	<u>\$715,000</u>

**ATLANTIC CITY SHOWBOAT, INC.**  
**Notes to Financial Statements**  
**(Dollars In Thousands)**

**(8) Long Term Debt, Due to Affiliates (Cont.)**

On May 18, 1993, SBO issued \$275,000 of 9 1/4% First Mortgage Bonds due 2008 (9 1/4 % Bonds) and subsequently loaned approximately \$215,000 of the proceeds to the Company evidenced by an intercompany promissory note with terms and conditions consistent with those of the 9 1/4% Bonds.

Subsequent to the acquisition of SBO by HARRAH'S on June 1, 1998, HARRAH'S completed tender offers and consent solicitations for SBO's 9 1/4 Bonds.

As a result of the receipt of the requisite consents, HARRAH'S eliminated or modified substantially all of the negative covenants, certain events of default and made other changes to the respective indentures governing the 9 1/4 Bonds. The Company's intercompany promissory note with SBO remained unchanged. On January 15, 1999 the Company entered into a \$500,000 intercompany promissory note with HOC. For value received, the Company promises to pay HOC the principal sum of \$500,000 on January 15, 2009 and to pay interest thereon at the rate of 7 1/2 % per annum. Payments of interest shall be made semiannually on January 15 and July 15 of each year, commencing July 15, 1999, and shall be calculated on the basis of a 360-day year.

On March 12, 2003 both the 9 1/4 % and 7 1/2 % Promissory Notes were assigned by their respective holders to Gaming Entertainment Limited, a foreign entity that is wholly owned by HARRAH'S. The terms and amounts of the debt were not affected by this assignment. The only notable change is that interest will be paid monthly instead of semiannually.

Interest payments related to long-term debt are included in the Amounts Due to Affiliates.

**(9) Leases**

The Company leases a warehouse under a long-term lease agreement that is capitalized as a capital lease. The Company has the option to purchase the warehouse from January 1, 2006 through March 31, 2006 at an option price of approximately \$1,928.

The Company leases 10 1/2 acres of Boardwalk property in Atlantic City, New Jersey for a term ending in 2082 from an affiliate. Annual rent payments, which are payable monthly, commenced upon opening of the Atlantic City Showboat. The rent is adjusted annually based upon changes in the Consumer Price Index. In April 2003, the annual rent increased \$308 to \$10,415. The Company is responsible for taxes, assessments, insurance and utilities. Rent expense under this lease for the nine months ended September 30 2003 and 2002, was \$7,734 and \$7,545 respectively.

**(10) Stock Plans**

HARRAH'S has various incentive plans under which restricted shares or stock options may be granted to key employees of the Company. Compensation expense of \$209 and \$331 was recognized for the nine months ended September 30, 2003 and 2002, respectively.

**ATLANTIC CITY SHOWBOAT, INC.**  
**Notes to Financial Statements**  
**(Dollars In Thousands)**

**(11) Non-operating Income (Expense)**

For the nine months ended September 30 2003 and 2002, Non-Operating Income (Expense) consisted of the following:

	<u>2003</u>	<u>2002</u>
Interest Income	\$723	\$460
Gain/Loss on Asset Sales	<u>0</u>	<u>62</u>
	<u>\$723</u>	<u>\$522</u>

**(12) Employee Benefit Plans**

The Company maintains a retirement and savings plan for eligible employees who are not covered by a collective bargaining agreement. Under the terms of the plan adopted on July 1, 1999, eligible employees may defer up to 6% of their compensation, as defined, of which 100% of the deferral is matched by the Company. Eligible employees may contribute an additional 10% of their compensation, which will not be matched by the Company. Amounts contributed by the Company vest over a five-year period. The Company contributed \$1,417 and \$1,567 to this plan for the nine months ended September 30 2003 and 2002, respectively.

The Company's union employees are covered by union-sponsored, collectively bargained, multi-employer pension plans. Contributions are generally determined in accordance with the provisions of negotiated labor contracts and generally are based on the number of hours worked. Contributions to the plans were \$802 and \$686 during the nine months ended September 30, 2003 and 2002, respectively.

**(13) New Jersey Investment Obligation**

The New Jersey Casino Control Act (Act) provides, among other things, for an assessment on a gaming licensee equal to 1.25% of their gross gaming revenues in lieu of an investment alternative tax equal to 2.5% of gross gaming revenues. The Company may satisfy this investment obligation by investing in qualified eligible direct investments, by making qualified contributions or by depositing funds with the CRDA. Funds deposited with the CRDA may be used to purchase bonds designated by the CRDA or, under certain circumstances, may be used to purchase bonds designated by the CRDA in exchange for credits against future CRDA investment obligations. CRDA bonds have terms up to 50 years and bear interest at below market rates.

Deposits with the CRDA bear interest at two-thirds of market rates resulting in a current value lower than cost. As more fully disclosed in Note 5, at September 30, 2003 and 2002, Investments, Advances, and Receivables include \$23,235 and \$18,973 respectively, representing the Company's bond purchases and deposits with the CRDA, net of the valuation allowance. The carrying value of these deposits, net of the valuation allowance, approximates fair value.

**ATLANTIC CITY SHOWBOAT, INC.**  
**Notes to Financial Statements**  
**(Dollars In Thousands)**

**(13) New Jersey Investment Obligation (Cont.)**

In December 1999 the CRDA approved a credit exchange agreement between the Company and Harrah's Atlantic City (HAC). The CRDA approved an exchange of \$4,628 of HAC South Jersey Future Obligations from the Company's Atlantic City Housing Current Obligations. The exchange was implemented by the immediate transfer of \$4,628 from the Company's Atlantic City Housing Obligations to HAC. In accordance with the exchange agreement, \$4,628 of HAC South Jersey Future Obligations shall be transferred back to the Company's South Jersey Current Obligations upon payment by HAC of such Obligations received by the CRDA on future Quarterly Payment Dates.

**(14) Commitments and Contingencies**

**Litigation**

The Company is a party in various legal proceedings with respect to the conduct of its operations. Although a possible range of loss cannot be estimated, in the opinion of management, settlement or resolution of the proceedings should not have a material adverse impact on the financial position or results of operations of the Company.

**License Renewal**

During January 2001, the New Jersey Casino Control Commission (the "CCC") renewed the Company's license to operate its casino hotel complex in Atlantic City. A casino license is not transferable, and must be renewed every four years by filing an application which must be acted upon by the CCC no later than 30 days prior to the expiration of the license then in force.



## STATEMENT OF CONFORMITY, ACCURACY AND COMPLIANCE

1. I have examined this Quarterly Report.
2. All the information contained in this Quarterly Report has been prepared in conformity with the Casino Control Commission's Quarterly Report Instructions and Uniform Chart of Accounts.
3. To the best of my knowledge and belief, the information contained in this report is accurate.
4. To the best of my knowledge and belief, except for the deficiencies noted below, the licensee submitting this Quarterly Report has remained in compliance with the financial stability regulations contained in N.J.A.C. 19:43-4.2(b)1-5 during the quarter.



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Signature - Anthony P. Rodio

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Vice President of Finance & Admin.

Title

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7022-11

License Number

On Behalf Of:

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Atlantic City Showboat, Inc.

Casino Licensee